

ELECTRICA GROUP

**Information note regarding the effects on REB 2019 arising from the
Electrica GMS decision no. 2/25 April 2019, points 7-10 and from the
application of GEO no. 19/29 March 2019**

Free translation from Romanian, which is the official and binding version, and will prevail, in the event of any discrepancies with the English version.

1. Observations

The analysis performed below is based on the comparison between the approved Revenues and Expenses Budget (REB) 2019 and the rectified REB 2019, taking into account only the changes brought by GEO no. 19/29 March 2019 and by the Electrica GMS decision no. 2/25 April 2019 - points 7 - 10.

Thus, taking into account the mentions of the shareholder - the Ministry of Energy, included in the minutes of the Electrica GMS dated 25 April 2019, this information note was drawn up to present the effects on REB arising from the amendments brought by GEO no. 19/29 March 2019 and by the Electrica GMS decision no. 2/25 April 2019 - points 7 - 10.

No other effect on REB 2019 is presented below. Thus, the rectified REB presents only the effects presented above and should not be interpreted as a re-estimation of the approved REB for 2019; therefore, the "rectified REB" concept refers to the presentation of the aforementioned effects on the approved REB for 2019.

Also, the effects of a potential change or cancellation of GEO no. 114/2018 and GEO no. 19/2019 are not included in the estimates.

2. Consolidated Rectified Budget

Comparative analysis rectified budget 2019 vs. approved budget 2019

Table 1: Revenue and Expenses RB2019 vs. AB2019 [RON th]

Indicator	Approved Budget 2019	Rectified Budget 2019	RB 2019 vs. AB 2019	RB 2019 vs. AB 2019 %
Revenues, out of which:	6,033,540	6,047,043	13,503	0.2%
Construction revenues (IFRIC 12)	718,278	718,278	-	-
Other income	180,044	180,044	-	-
Purchased electricity	(3,179,889)	(3,189,964)	(10,075)	0.3%
Cost of green certificates	(504,275)	(504,275)	-	-
Construction costs related to concession agreements (IFRIC 12)	(704,195)	(704,195)	-	-
Employee benefits	(702,325)	(700,078)	2,247	-0.3%
Repairs, maintenance and materials	(57,617)	(57,617)	-	-
Depreciation and amortization	(434,074)	(434,074)	-	-
Reversal of impairment/(Impairment) of property, plant and equipment, net	7,189	7,189	-	-
Reversal of impairment/(Impairment) of trade and other receivables, net	(3,172)	(3,172)	-	-
Change in provisions, net	8,526	8,526	-	-
Other operating expenses	(488,258)	(488,258)	-	-
Operating profit	155,494	161,169	5,675	3.6%
Finance income	7,642	7,642	-	-
Finance costs	(14,865)	(14,865)	-	-
Net finance income	(7,223)	(7,223)	-	-
Profit before tax	148,271	153,946	5,675	3.8%
Income tax expense	(27,543)	(28,015)	(472)	1.7%
Profit for the year	120,728	125,931	5,203	4.3%

Source: Electrica

Fig. 1: RB 2019 vs. AB 2019 analysis [RON th]



Source: Electrica

Revenues

By GEO no. 19/2019, the regulated rate of return was increased from 5.66% to 6.9% for the electricity distributors and for the transmission and system operator, ANRE having the obligation to modify the regulations in order to implement these provisions within 60 days from the date of entry into force of the GEO.

Thus, through ANRE orders no. 78, 79 and 80, new distribution tariffs were approved, applicable starting 1 July 2019, increased by approx. 2.3% for the Electrica Group DSOs, compared to the tariffs from 1 March 2019.

The cumulative effect at consolidated level arising from higher tariffs as of 1 July 2019, as a result of the application of GEO no. 19/2019 provisions, is an increase in revenues of **RON 13,503 th**, compared to the approved budget; at revenue level, the ordinance had an impact only on the distribution segment.

The estimated increase in revenues of RON 13,503 th is exclusively the impact of the tariffs' increase from 1 July 2019, these being applied to the volumes initially budgeted for H2 2019.

Cost of electricity purchased

On the supply segment, the increase in the tariffs for distribution and transmission of electricity and for system services as of 1 July 2019 as a result of application of GEO no. 19/2019 provisions will have a negative impact on the regulated market segment, as the electricity supply tariff for this segment remained unchanged; thus, a negative impact in the amount of RON 6,639 th is estimated on the cost of electricity purchased on the regulated segment. According to the methodology, there are prerequisites for future recovery through tariffs of this difference, which had an adverse impact.

No negative effects were considered on the competitive segment of the market, given that the prices are freely established on this segment, by negotiation between the parties and taking into account the contractual clauses; usually, on the competitive segment, the transport and distribution tariffs are properly reflected in the final price applied.

Regarding the **distribution segment**, the cost of electricity purchased to cover network losses is estimated to increase by **RON 3,436 th**, as a result of the change in the TSO transmission and system tariffs from 1 July 2019.

Taking into account both main activity segments, the impact of GEO no. 19/2019 on the cost of purchased electricity consists in an increase of **RON 10,075 th**, resulting from the rise of the distribution tariffs and of the TSO's transmission and system services tariffs, respectively.

Employee benefits

By the GMS decision from 25 April 2019, the Remuneration policy and the proposed form of the mandate contract for the members of the ELSA Board of Directors, as well as the remuneration limits for the ELSA executive managers were rejected. Considering that REB 2019 included additional amounts that would have resulted from applying the updated remuneration policy for the directors and managers, respectively, and taking into account the GMS decision, the chapter "**Employee benefits**" is impacted by the amount of RON 2,247 th at Group level, by reducing the budgeted expense.

Profit before tax

As a result of the changes presented above, the profit before tax has a positive variation of **RON 5,675 th** compared to the result of the approved REB 2019 of RON 155,494 th, reaching the value of **RON 161,169 th**.

Income tax

The income tax expense is estimated to have a variation of **RON 472 th**, in line with the positive variation of the gross profit, and using an estimated effective tax rate.

Net profit

The consolidated net profit of the rectified budget for 2019 is **RON 125,931 th**, recording a positive variation of RON 5,203 th, compared to RON 120,728 th from the approved REB for 2019.

3. Electrica SA (ELSA)

Comparative analysis of the rectified budget 2019 vs. approved budget 2019

Table 2: Revenue and Expenses RB2019 vs. AB2019 [RON th]

INDICATORS	Approved Budget 2019	Rectified Budget 2019	RB 2019 vs. AB 2019	RB 2019 vs. AB 2019 %
Revenues	19,120	19,120	-	-
Other income	112	112	-	-
Employee benefits	(33,707)	(31,460)	2,247	-6.7%
Depreciation and amortization	(24,614)	(24,614)	-	-
Reversal of impairment/(Impairment) of property, plant and equipment, net	(200)	(200)	-	-
Change in provisions, net	(770)	(770)	-	-
Other operating expenses	(28,575)	(28,575)	-	-
Operating loss	(68,634)	(66,387)	2,247	-3.3%
Finance income	264,148	264,148	-	-
Finance costs	(128)	(128)	-	-
Net finance income	264,020	264,020	-	-
Profit before tax	195,386	197,633	2,247	1.2%
Income tax – benefit	-	-	-	-
Profit for the year	195,386	197,633	2,247	1.2%

Source: Electrica

Employee benefits

By the GMS decision from 25 April 2019, the Remuneration policy and the proposed form of the mandate contract for the members of the ELSA Board of Directors, as well as the remuneration limits for the ELSA executive managers were rejected. Considering that REB 2019 included additional amounts that would have resulted from applying the updated remuneration policy for the directors and managers, respectively, and taking into account the GMS decision, the chapter "**Employee benefits**" is impacted by the amount of RON 2,247 th at ELSA level, by reducing the budgeted expense.

Net profit

Following the above mentioned effect, the net profit for the rectified REB 2019 is RON **197,633 th**, compared to RON 195,386 th according to the approved REB 2019.